



General Assembly

Distr.: General
15 June 2011
English
Original: Spanish

Sixty-fifth session

Agenda item 20 (d)

**Sustainable development: protection of global climate
for present and future generations of humankind**

Letter dated 8 June 2011 from the Permanent Representative of Ecuador to the United Nations addressed to the Secretary-General

As you know, Ecuador is participating actively in negotiations on climate change. In that context, it has proposed a new market mechanism for mitigation known as the "Net Avoided Emissions" (NAE) mechanism, which is submitted as an alternative to complement current efforts and enhance the cost-effectiveness of activities contributing to the mitigation targets established under the United Nations Framework Convention on Climate Change and the Kyoto Protocol (see annex).

Ecuador considers it vitally important that the States Members of the United Nations should be aware of this initiative, which comes within the framework of the Bali Action Plan and the Cancun Agreements.

In that connection, I should be grateful if you would arrange for this letter and its annex to be circulated as a document of the General Assembly.

(Signed) Francisco Carrión-Mena
Ambassador
Permanent Representative

Annex to the letter dated 8 June 2011 from the Permanent Representative of Ecuador to the United Nations addressed to the Secretary-General

Net avoided emissions

Submission to the Ad Hoc Working Group on Long-term Cooperative Action under the Convention, to be considered as an input for a draft decision, or decisions, of the Conference of the Parties, for consideration at its seventeenth session

Views in connection with paragraph 81 of Decision 1/CP.16 entitled "The Cancun Agreements: Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention" on "Various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries"

May 2011

Contents

	<i>Page</i>
1. Introduction	3
1.1 Background	3
1.2 Core concept: Net avoided emissions	5
1.3 General objective of the proposed mechanism	5
1.4 Specific objectives of the proposed mechanism	5
2. About the mechanism	6
2.1 Design	6
2.1.1 Method of compensation and its financial value	6
2.1.2 International level: sustainability and synergies (criteria of the various conventions)	6
2.1.3 National level: scope	7
2.1.4 Governance and institutional arrangements	8
2.2 Method of implementation	8
2.2.1 Definition of baseline and limits by sectors	8
2.2.2 Measurement, reporting and verification	9
2.2.3 Environmental integrity: leakage, additionality and permanence	9
3. Complementarity with other mechanisms	10
4. Conclusions	10
4.1 Additional benefits of the mechanism	11

1. Introduction

1.1 Background

The Conference of the Parties to the United Nations Framework Convention on Climate Change, at its sixteenth session, requested the Ad Hoc Working Group on Long-term Cooperative Action under the Convention to elaborate proposals for a mechanism to enhance the cost-effectiveness of, and to promote, mitigation actions, with a view to recommending a draft decision for consideration at its seventeenth session. The said proposals were to be submitted to the secretariat of the Convention by 21 February 2011.

The mechanism to be elaborated should:

1. Ensure voluntary participation of Parties, under the principles of fair and equitable access;
2. Complement the nationally appropriate mitigation actions of developing country Parties;
3. Stimulate mitigation across broad segments of the economy;
4. Safeguard environmental integrity;
5. Ensure a net decrease in and/or avoidance of global greenhouse gas emissions;
6. Assist developed country Parties to achieve their mitigation targets, complementing the domestic mitigation efforts of those countries;
7. Ensure good governance and robust market functioning and regulation.

The proposal should demonstrate that the mechanism, and the implementation thereof, builds upon existing mechanisms, including those established under the Kyoto Protocol.

Studies undertaken by the Intergovernmental Panel on Climate Change prove the existence of climate change, showing a continuous increase in the concentration of greenhouse gases in the atmosphere, caused by anthropogenic activities with global repercussions.

The United Nations Framework Convention on Climate Change was established in response to this global concern, with the ultimate objective of achieving stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system.

Annex I countries signatory to the Kyoto Protocol have an obligation to meet their greenhouse gas emission reduction targets in the first commitment period, from 2008 to 2012. In order to facilitate their compliance with these objectives, three flexibility mechanisms were established under the Kyoto Protocol to complement the domestic actions that they are required to take.

At the sixteenth session of the Conference of the Parties to the Convention in December 2010, the President of the Republic of Ecuador, Rafael Correa Delgado, introduced the concept of net avoided emissions, with the aim of making an innovative and viable proposal that would contribute to real climate change mitigation.

Against this backdrop, Ecuador is proposing the establishment of a new alternative market mechanism, the Net Avoided Emissions (NAE) mechanism, which is submitted as an alternative to complement current efforts and enhance the cost-effectiveness of activities contributing to the mitigation envisaged under the Convention and the Kyoto Protocol.

The NAE mechanism is consistent with the principle of common but differentiated responsibilities and respective capabilities. It could also facilitate the achievement of objectives under other conventions, such as the Convention on Biological Diversity and the United Nations Convention to Combat Desertification, among others.

Net avoided emissions are the emissions that could be generated within the economy of a given country but are avoided. The avoided emissions result in a net positive balance of reduced emissions, at the national and global levels, which should be compensated. The concept complements the compensation available through the mechanisms proposed under the Kyoto Protocol as well as the mechanism for reducing emissions from deforestation and forest degradation, plus conservation (REDD-plus). Because the NAE mechanism involves a cross-sectoral approach, it is not limited to any one specific sector and covers economic activities that involve the exploitation, use and development of renewable and non-renewable resources. The NAE mechanism is in fact a comprehensive concept that significantly increases the opportunities for compensation for mitigation services.

The economic value associated with the provision of net avoided emissions services makes both environmental and economic sense. The central idea of the NAE mechanism is to allow the promotion and incentivization of activities with positive social potential. In environmental terms, the NAE mechanism makes it possible to avoid destruction, degradation and/or contamination of the environment. In economic terms, compensation for net avoided emissions, like all compensation for generating or maintaining environmental assets, is based on the need to compensate the generation of value, and not only of goods, in order to maximize social well-being and sustainable development, which, because they are open access goods, do not have explicit market prices.

This proposal covers the following themes:

- Background
- Core concept
- General objective of the NAE mechanism
- Specific objectives of the NAE mechanism
- General information on the proposal
- Design of the mechanism
- Method of implementation
- Complementarity with other mechanisms
- Conclusions

1.2 Core concept: Net avoided emissions

In the context of international negotiations on climate change, under the Bali Action Plan and in accordance with Decision 1/CP.16 of the Cancun Agreements, Ecuador is proposing a new market mechanism for mitigation known as the "Net Avoided Emissions" (NAE) mechanism.

This mechanism is defined as a voluntary market-based model¹ with a programmatic and cross-sectoral focus. Net avoided emissions are the greenhouse gas emissions which could be generated, based on a developing country's current economic capacity, but are not emitted. In other words, the NAE mechanism provides the opportunity to generate economic value associated with avoided emissions services, equivalent to the total price of the tons of carbon not emitted, traded on the current carbon market or other markets created for that purpose.

The NAE mechanism promotes fair and equitable access for all developing country Parties, stimulates the implementation of mitigation activities across broad segments of the economy, and is supplemental to the domestic mitigation efforts of developed countries.

Furthermore, the NAE mechanism has a social and environmental value in developing countries, since, by avoiding emissions, it promotes well-being in human settlements, and the preservation of their traditions, cultures and ways of life, among other aspects of the natural, social and cultural heritage. Its environmental value is linked to the preservation of ecosystems, sustainable management of natural resources and protection of biodiversity, as well as its role in preventing the destruction of nature and degradation of environmental quality.

1.3 General objective of the proposed mechanism

The general objective of the proposed mechanism is to increase mitigation opportunities in developing countries, by guaranteeing the necessary incentives for the implementation of activities that contribute to the avoidance of emissions and to a real net reduction in emissions, as well as to the consequent achievement of the overall objective of reducing emissions in order to stabilize the climate system.

1.4 Specific objectives of the proposed mechanism

- Enhance the cost-effectiveness of mitigation activities under the Convention
- Provide an alternative that brings together the existing flexibility mechanisms established under the Kyoto Protocol, from the perspective of action under the new long-term cooperation approach.

¹ The NAE mechanism could also be used on a non-market basis.

2. About the mechanism

2.1 Design

2.1.1 Method of compensation and its financial value

Compensation under the mechanism will be provided through the creation of a new asset. The financial value of the asset will be equivalent to the total price of the tons of carbon dioxide (CO₂) not emitted, traded on the current carbon market or other markets established for that purpose. The tons of carbon dioxide not emitted will correspondingly be termed "tons of carbon dioxide equivalent" (CO₂e). The resulting assets will be tradable and will carry defined ownership rights for buyers and sellers.

In economic terms, the NAE mechanism, like all incentives for generating or maintaining environmental assets or services, is based on the need to provide for viable economic compensation that fosters the establishment of socially beneficial values. This approach seeks to define institutional arrangements that allow social well-being and sustainable development to be maximized.

The developing country implementing the NAE mechanism will be compensated by means of a financial asset known as an "NAE unit", justified on the basis of the avoidance of economic activities that generate greenhouse gas emissions or actions aimed at reducing emissions from those economic activities that generate them.

NAE units may be traded directly between buyers and sellers in the form of tradable documents bought and sold:

- under a binding agreement between the parties (for example through a fiduciary or trust fund);
- on the carbon market under the Kyoto Protocol;
- through other market mechanisms established for that purpose.

The buyers will be developed countries and those that, under the Convention, have voluntarily announced independent quantified mitigation targets to cut emissions or curb emissions growth. The NAE mechanism will help them to achieve their emissions reduction goals and targets, under the principle of common but differentiated responsibilities and respective capabilities. Consequently, the sellers under the NAE mechanism will be developing countries that: (i) have marginal greenhouse gas emissions; (ii) are seeking to transform their economies from dependence on extractive industries to the export of services and values; (iii) have rich biodiversity and ancestral cultures; and (iv) undertake to invest the financial resources generated by the NAE mechanism in climate change mitigation and adaptation measures.

2.1.2 International level: sustainability and synergies (criteria of the various conventions)

The NAE mechanism facilitates the attainment of objectives established under other conventions that have synergies with the Convention and its objectives. Essentially, the rules of the NAE mechanism contain clear guidelines for developing country Parties on meeting requirements for the protection and preservation of

biodiversity and endangered species, as well as the rights and processes inherent to indigenous civil society, communities, peoples and nationalities, including their knowledge, culture and development expectations.

The following conventions offer synergies with the NAE mechanism, as well as other international instruments in force:

- Convention on Biological Diversity
 - contributes to the objectives of the Economics of Ecosystems and Biodiversity study
- United Nations Convention to Combat Desertification
- Universal Declaration of Human Rights
- United Nations Declaration on the Rights of Indigenous Peoples
- Ramsar Convention (Convention on Wetlands of International Importance especially as Waterfowl Habitat)

In order to ensure the sustainability of the proposal, it is necessary to:

- Guarantee the establishment of a market-based model under the Convention that ensures the operation of the mechanism and includes binding obligations under the same Convention
- Guarantee competitiveness in the carbon market
- Demonstrate the associated social and environmental benefits
- Incorporate robust measurement, reporting and verification mechanisms.

The sustainability of the mechanism is related to the establishment of a voluntary long-term cooperation agreement under the Convention. Its sustainability is also linked to the emissions reduction commitments of developed countries and those countries that, under the Convention, have voluntarily announced independent quantified mitigation targets to cut emissions or curb emissions growth, as well as to the legal provisions guaranteeing the commitment of all Parties to achieve the objective of the Convention.

2.1.3 National level: scope

This mechanism is not limited to a specific activity or a particular sector of the economy, but covers economic activities that involve the comprehensive exploitation, use and development of renewable and non-renewable natural resources, and entails compensation for avoiding emissions and for taking actions to reduce emissions in any sector of the economy. In the area of renewable resources, for example, it is not limited to deforestation and degradation of forests, but could also be applied, *inter alia*, to changes in land use. Since it is a flexible mechanism that can be adapted to different economic sectors, it can therefore be seen as an inclusive proposal in which all Parties can participate, on a voluntary basis, bearing in mind their respective capacities and national circumstances.

The sectors to be covered by the mechanism will be defined at the national level, in accordance with each country's priorities and strategic economic sectors.

2.1.4 Governance and institutional arrangements

An Executive Committee established under the Convention and reporting to the Conference of the Parties will have principal responsibility for the operation and governance of the mechanism.

When the NAE mechanism is first launched, a Transitional Committee will be established, with equal representation from developed and developing countries. This Committee will propose the rules and procedures for the new mechanism, for subsequent adoption by the Conference of the Parties.

At the international level, the aim is for the mechanism to be included among the governance models already established under the Convention for the implementation of specific mechanisms (such as the Clean Development Mechanism). A body reporting directly to the Executive Committee will also be designated to verify compliance with the guidelines and procedures established for the NAE mechanism.

Furthermore, the Convention secretariat will keep a record of countries participating in the NAE mechanism and actions undertaken within its framework. In the same way, at the national level, an institution must be established to serve as the "designated national authority" to approve and coordinate the implementation of the NAE mechanism (as is the case with the existing mechanisms).

2.2 Method of implementation

2.2.1 Definition of baseline and limits by sectors

1. Baseline

The Transitional Committee will develop the requirements and parameters for the methodologies applicable to calculation of the baseline. Developing countries wishing to participate in the NAE mechanism will be required to comply with the requirements and parameters developed.

Each country, according to the type of economic activity, will develop a specific methodology based on the particular characteristics that need to be taken into account for the calculation of emissions avoided by the specific mitigation activities for that economic activity. The methodology developed will be validated by means of mechanisms determined by the Transitional Committee and adopted by the Conference of the Parties.

2. Emissions scenarios

To determine the tons of carbon equivalent that will not be emitted under the NAE mechanism, two emissions scenarios must be established:

"Business as usual" scenario — these are the emissions that would be generated by carrying out a given economic activity.

Avoided emissions scenario — these are the emissions that would not be generated or would be avoided by not carrying out a given economic activity.

3. Cost analysis

In order to establish the scale of the activities that will not be carried out in the national economy and relate them to the emissions avoided as a result, the economic value of the activity must be determined, based on the net profit or return that would have been generated from it. The above must include a cost analysis that takes into account the following variables:

- Opportunity costs
- Financial costs
- Transaction costs
- Net present value of the activity not carried out
- Revenue from the transaction in NAE units and their CO₂ equivalents.

2.2.2 Measurement, reporting and verification

Measurement, reporting and verification activities must be defined according to the sectors and activities identified for the implementation of the NAE mechanism at the national level.

Each Party should develop its own measurement, reporting and verification methodologies, which should be in line with the guidelines established by the Committee for the mechanism (where appropriate, the most recent Intergovernmental Panel on Climate Change guidelines will be used).

The measurement, reporting and verification system will correspond to the proposed scenarios and the corresponding baselines.

2.2.3 Environmental integrity: leakage, additionality and permanence

Developing country Parties wishing to participate in the NAE mechanism, subject to the binding instruments of the Convention and the oversight of panels of experts, may establish guarantees and clear terms of reference regarding the activities under the mechanism and the benefits deriving from them, as well as methodologies for determining the economic threshold of viability for the activities associated with the compensation of an NAE unit.

In the mechanism, permanence will be determined by the economic viability of compensating the country for the activity that was not carried out, according to the model described above, as well as the length of time during which the activity would have needed to be continued in order to maximize the economic benefits that would have been generated under the "business as usual" scenario.

If the mechanism includes a cross-sectoral approach and net emissions balances at the national and global level, it will also be possible to take leakage into account.

With regard to additionality, the mechanism offers value added, since, in its absence, emissions associated with economic activities in developing countries would be generated. Furthermore, the mechanism complements the greenhouse gas emission sequestration and reduction services of the existing mechanisms under the Convention and the avoided emissions will therefore be additional to the reduction of global net emissions that can already be achieved.

3. Complementarity with other mechanisms

The flexibility mechanisms under the Kyoto Protocol do not result in a net reduction of emissions released into the atmosphere. They only reduce the rate of build-up and growth in greenhouse gas emissions and, consequently, do not reduce the concentration of such gases in the atmosphere.

The NAE mechanism, on the other hand, proposes a more ambitious target, consisting of the avoidance of emissions that could be generated in the economy and under the law of each country, or the reduction of the emissions that exist within each country's economy. Unlike other mechanisms, the rules of the NAE mechanism include, as value added, the protection and preservation of biodiversity and the rights and processes inherent to indigenous peoples, including their knowledge, culture and development expectations, as well as other national heritage resources that the implementing Parties value in economic, environmental, social and cultural terms. Furthermore, the mechanism requires that the economic resources obtained as compensation by the developing countries implementing the mechanism should be allocated to the financing of climate change mitigation and adaptation measures.

The mechanism also contributes to the transition that is needed, in Ecuador and throughout the world, in order to implement a new economic development model that promotes non-use values and provides financial compensation for the mitigation of climate change.

Bearing this in mind, the NAE mechanism not only complements current mechanisms, facilitating the attainment of objectives established under other conventions that have synergies with the Convention and its objectives, but it also brings together all the mechanisms that currently exist under the Kyoto Protocol, and in which the developing countries are involved.

4. Conclusions

The NAE mechanism is a cost-effective alternative for stabilizing climate change, by means of which Parties with marginal emissions, or with growth patterns low in greenhouse gas emissions, would be able to maximize that potential by receiving financial compensation from Parties with growth patterns high in greenhouse gas emissions.

The NAE mechanism brings together the flexibility mechanisms established under the Kyoto Protocol, from the perspective of action under the new long-term cooperation approach. It is not limited to a specific sector but covers all the economic activities that the developing country is capable of developing at the time it decides to apply the mechanism. Since it is implemented as a market-based mechanism, it guarantees compensation for the activity not carried out, which contributes to a net reduction in emissions and, consequently, to the achievement of the global objective of reducing emissions to stabilize the climate system.

If the "business as usual" scenario is maintained, the objective of temperature stabilization will be impossible to achieve. It is therefore important to highlight both the necessity and the adequacy of the proposed mechanism for reducing emissions associated with activities that are not carried out and achieving a transition to

economies that guarantee sustainable development based on patterns of low greenhouse gas emissions.

The implementation of this mechanism would have a dramatic impact, since it would allow many countries, for example mega-diverse countries, to transform their economies and establish them on the basis of bioknowledge and environmental services, taking into account the principle of co-responsibility in the management of global public goods, such as the atmosphere.

4.1 Additional benefits of the mechanism

Realizing the objective of the NAE mechanism in an effective and balanced way will allow a number of benefits to be achieved. In particular, it will be possible to:

- Prevent environmental degradation arising from the exploitation of renewable and non-renewable natural resources that generate greenhouse gas emissions
- Contribute in parallel to a reduction in the CO₂ emissions caused by various economic activities
- Contribute to the protection of the natural heritage, biodiversity and ecosystem functions
- Facilitate the maintenance of natural cycles, especially the carbon cycle
- Protect and recover habitats, particularly in mega-diverse countries with unmet basic needs
- Preserve ecosystems for human habitats
- Improve the living standards of populations in order for them to receive direct benefits that in turn lead to the sustainable preservation of renewable and non-renewable natural resources
- Foster intergenerational equity in order to ensure a safe environment for current and future generations, and equitable access to global public goods such as atmospheric space.